

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00

COME-00 DODE-00 DOE-11 H-01 INR-10 INT-05 L-03

NSAE-00 OMB-01 PM-05 OES-07 SP-02 SS-15 STR-07

TRSE-00 ACDA-12 NSCE-00 SSO-00 USIE-00 INRE-00

DOEE-00 /108 W

-----110495 150049Z /17

O 150015Z MAR 78

FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC IMMEDIATE 6646

C O N F I D E N T I A L SECTION 01 OF 02 OTTAWA 01284

DEPT. PASS DOE FOR FERC COMMISSIONER SMITH, LES GOLDMAN
AND JOHN ADGER

E.O. 11652: GDS

TAGS: ENRG, CA

SUBJECT: CAPITAL COST OF NORTHERN GAS PIPELINE

REF: OTTAWA 1232

1. EMBASSY RECEIVED REPLY AFTERNOON OF MARCH 14 FROM NEB
CHAIRMAN STABBACK TO MARCH 10 LETTER TO EDGE FROM
COMMISSIONER SMITH. (TEXT OF SMITH LETTER, AS DELIVERED,
GIVEN REFTEL). LETTER ENCLOSES GOC COUNTERPROPOSAL FOR
ADDENDUM TO CAPITAL COSTS ESTIMATED IN ANNEX III OF
BILATERAL NORTHERN GAS PIPELINE AGREEMENT. EFFECT OF
GOC VERSION IS TO INCORPORATE MONITORING COSTS INTO
CAPITAL COSTS (AS ESTIMATED BY FOOTHILLS) BUT TO AVOID
PLACING A LIMITATION ON THEM.

2. TEXT OF LETTER AND GOC PROPOSAL FOR ANNEX III ADDENDUM
FOLLOW.

"THIS IS IN RESPONSE TO YOUR LETTER DATED MARCH 10TH
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ENCLOSING A LETTER OF THE SAME DATE ADDRESSED TO MR.
C. G. EDGE, CONVEYING THE VIEWS OF MR. DONALD SMITH,
COMMISSIONER OF THE UNITED STATES FEDERAL ENERGY
REGULATORY COMMISSION, CONCERNING CAPITAL COSTS OF A
56-INCH 1080 PSIG SECTION OF THE NORTHERN GAS PIPELINE
FROM WHITEHORSE, YUKON, TO CAROLINE, ALBERTA.

"THE NATIONAL ENERGY BOARD AND MR. ROBINSON, NORTHERN PIPELINE COMMISSIONER, HAVE EXAMINED THE PROPOSED ADDENDUM TO ANNEX III OF THE AGREEMENT ON PRINCIPLES APPLICABLE TO A NORTHERN NATURAL GAS PIPELINE, ATTACHED TO YOUR LETTER ADDRESSED TO MR. EDGE.

"WHILE WE ARE IN AGREEMENT WITH THE PRINCIPLE EXPRESSED THEREIN, THE WORDING AS PROPOSED IS NOT SATISFACTORY.

ATTACHED HERETO IS A DRAFT OF AN ADDENDUM WHICH WOULD MEET CANADIAN REQUIREMENTS, ON WHICH I HOPE IT WILL BE POSSIBLE TO REACH AGREEMENT.

"A MINOR ADDITION HAS BEEN MADE TO LINE TWO OF THE UNITED STATES VERSION AND THE SENTENCE HAS BEEN SHORTENED BY DELETING THE LAST THREE LINES, WHICH WOULD APPEAR TO PLACE A LIMITATION ON THE AMOUNT OF MONITORING COSTS WHICH MAY BE INCURRED BY THE COMPANIES. SUCH A LIMITATION WOULD HAVE NO BEARING ON THE 'FILED COSTS' IF IT IS AGREED THAT SUCH COSTS ARE INCLUSIVE OF MONITORING COSTS AND, IN ANY CASE, ALL MONITORING COSTS ARE PERMITTED UNDER THE AGREEMENT AS INDICATED IN ANNEX IV, ITEM 14.

"THE APPROPRIATE ADDITIONS TO REFLECT THE AGREED UPON 'FILED CAPITAL COSTS' FOR THE CASE UTILIZING 56-INCH
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PIPE HAVE BEEN INCLUDED IN OUR PROPOSED ADDENDUM.

"THE HONOURABLE ALLAN MACEACHEN HAS GIVEN HIS APPROVAL TO THE ATTACHED ADDENDUM AND, IF AGREEABLE TO THE UNITED STATES GOVERNMENT, THE APPROPRIATE STEPS SHOULD BE TAKEN TO FORMALIZE THE AGREEMENT THROUGH AN EXCHANGE OF NOTES.

"YOURS SINCERELY,
J. G. STABBACK"

"PROPOSED ADDENDUM TO ANNEX III

"THE CAPITAL COSTS SPECIFIED IN ANNEX III SHALL BE DEEMED TO INCLUDE ALL NORMAL PIPELINE COSTS INCURRED ON CONSTRUCTING GAS PIPELINE FACILITIES IN CANADA, EXCEPT THOSE SPECIFICALLY EXCLUDED IN THE PROVISIONS OF THE ANNEX, AND INCLUDE SUCH ITEMS AS AN ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION AS WELL AS AN ALLOWANCE ON AND RECOVERY OF REGULATORY MONITORING COSTS.

"THE FOLLOWING ADDITIONS SHALL BE MADE TO THE TABULATIONS

CONTAINED THEREIN:

"(A) TO THE TABLE 'FILED CAPITAL COST' ESTIMATES FOR
THE PIPELINE IN CANADA (MILLIONS OF CANADIAN DOLLARS;
THE PIPELINE IN CANADA (ZONES 1-9), INSERT AS LINE FOUR,
THE FOLLOWING:

"OR 56" - 1080 LB. PRESSURE PIPELINE - 4325'

"(B) TO THE TABLE' FILED CAPITAL COSTS FOR THE PIPELINE
IN CANADA', ADD A NEW FIFTH COLUMN AS FOLLOWS:

56"
1080 PSI
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DOLS MILLION

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TRSE-00 ACDA-12 NSCE-00 SSO-00 USIE-00 INRE-00
DOEE-00 /108 W

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O 150015Z MAR 78
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC IMMEDIATE 6647

C O N F I D E N T I A L SECTION 02 OF 02 OTTAWA 01284

(CANADIAN)

707
817
874
427

850
236
126
83
205

4325"

STABBACK ACKNOWLEDGED NEB'S COUNTERPROPOSAL WOULD EFFEC-
TIVELY EQUATE ESTIMATED MONITORING COSTS WITH APPROXI-
MATELY DOLS 36 MILLION DIFFERENCE BETWEEN FOOTHILLS
AND DOE/FERC CAPITAL COST ESTIMATES. IN EMPHASIZING
THAT NEB POSITION HAD APPROVAL OF DEPUTY PRIME MINISTER
MACEACHEN, HE ALSO NOTED THAT MACEACHEN HAD REJECTED ANY
APPROACH INVOLVING A CAP ON CAPITAL COSTS AS INCONSISTENT
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WITH NORTHERN GAS PIPELINE AGREEMENT AND GOC DRAFT LEGIS-
LATION. GOC POSITION IS BASED ON ARTICLE ELEVEN B)II)
OF AGREEMENT WHICH REFERS TO PERMISSIBLE DIRECT
CHARGES BY PUBLIC AUTHORITIES LISTED IN ANNEX IV. LIST
INCLUDES "COST OF SURVEILLANCE AND RELATED STUDIES
AS REQUIRED BY REGULATORY BODIES OR APPLICABLE LAWS".

4. ADVANTAGE OF NEB COUNTERPROPOSAL IS THAT IT WOULD
PROVIDE STRUCTURE FOR DEALING WITH MONITORING COSTS
SUPERIOR TO PRESENT PERMISSIVE TREATMENT IN AGREEMENT.
DISADVANTAGE IS THAT THERE IS STILL NO LIMIT, OR CAP,
ON COSTS.

5. GIVEN GOC REJECTION OF MONITORING COST CAP AT THIS
ADVANCED STAGE OF PARLIAMENTARY CONSIDERATION, WE SEE
ONLY TWO ALTERNATIVES: ACCEPT NEB COUNTERPROPOSAL, OR
RETURN TO INSISTENCE UPON RECONCILIATION OF FOOTHILLS
AND DOE/FERC CAPITAL COST ESTIMATES.

6. ALTHOUGH LATTER COURSE MIGHT ULTIMATELY YIELD ANNEX
III CAPITAL COST FIGURE CLOSE TO DOE ESTIMATES, WE WOULD
LOSE RELATIONSHIP OF MONITORING COSTS TO VARIABLE RATE OF
RETURN IMPLICIT IN NEB'S RESPONSE. AND OF COURSE MONITOR-
ING COSTS WOULD STILL HAVE TO BE PAID. THUS UNLESS THERE
ARE POLITICAL OBJECTIONS TO ACCEPTING NEB PROPOSAL,
BELIEVE IT IS THE BEST OPTION AND SHOULD BE ACCEPTED.

7. PLEASE ADVISE. ENDERS

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Secure: OPEN
Status: NATIVE
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